

The City of Modesto is unique compared to most other cities hit by the foreclosure crisis. The crisis for Modesto is not centralized to a specific neighborhood; every socio-economic group has been affected by this crisis. The housing market exploded in 2004 with the migration of families from the San Francisco Bay Area with home prices peaking in December of 2005. Families saw an option for more affordable housing with many options for financing in the Modesto area.

Standard national averages show that sub-prime loans are more frequent for minorities within low income neighborhoods. The City of Modesto minority, low income neighborhoods were severely affected by predatory lending. The predatory lending in Modesto had an impact throughout the city. The low income minority neighborhoods were hit the hardest, however no neighborhood escaped the problem.

Hit significantly harder than other areas of the country, foreclosure problems throughout the City of Modesto continue to affect the families within our community. Foreclosure filings are continuing to rise and families are having difficulty finding alternatives to refinance out of sub-prime loans. With countries economic problems, the crisis only seems to worsen in Modesto.

Greatest Need Determining Factors

Due to the foreclosure problems the City of Modesto established the following thresholds in determining eligibility for the Neighborhood Stabilization Program. Census Tracts had to meet at least one of these factors to be considered for funding.

1. Foreclosures in excess of 10 percent
2. Sub-prime loans in excess of 20 percent

The Target Area Purchase and Rehabilitation Activity which includes the Airport Neighborhood, the Weed and Seed Neighborhood as well as other surround areas is the hardest hit of the hard hit areas. This activity includes census tracts 000803, 001500, 001601, 001603, 001604, 001700, 002100, 002200, 002301, 002301, and 002400. This severely hard hit area has foreclosure rates of twelve percent and above and sub-prime loans in excess of thirty-six percent. The majority of these census tracts are in extremely low income neighborhoods with a wide range of ethnic backgrounds. The allocation for this activity is \$2,000,000.

The Scattered Site Purchase and Rehabilitation Activity which is slated to receive \$2,000,000 is still tremendously hard hit and the thresholds for establishing this target area were ten percent foreclosure rate and a twenty percent had sub-prime loans. This included census tracts 000602, 000801, 000805, 000806, 000906, 000908, 000909, 000910, 000911, 001002, 001100, 001200, 001300, 001400, 001800, 001900, 002003, 00204, 002501 and 002803.

There were five census tracts that were above nine and a half foreclosure rate and above a twenty percent that had sub-prime loans. These census tracts meet the sub-prime threshold and are less than one percent from the foreclosure threshold that they should be included in the program. These areas are greatest need areas and hard hit with the foreclosure problem. These census tracts are unique because of their location within the City of Modesto.



Census tract 00807 has a 9.94% foreclosure rate and more than 24.03% sub-prime loans. This census tract is located in north-west Modesto and is largely an agricultural area and is zoned P-SP. There are not many homes in this area and so the area is not accurately reflected in the foreclosure rates, therefore the City of Modesto would like to allocate this census tract into the scattered site target area. Another census tract that is not accurately reflected is census tract 000912 with a 9.52% foreclosure rate and a 20.52% sub-prime loan rate. This census tract has the majority of occupied homes already in foreclosure. The rest of the homes are developer owned. This is a relatively new neighborhood which was still in the middle of development at the beginning of the foreclosure problem. While development has slowed down, there are a number of homes that are still available for purchase from the developer. The data is slanted for this neighborhood because there are occupancy permits for homes; however it is only partially developed with the majority of completed homes still owned by the developer. The other census tracts 000905, 000907 and 001001 are at 9.68 - 9.93% foreclosure rate with 21.16 – 22.98% sub-prime loans these census tracts have large parks occupying portions of the neighborhoods and have sections that are zoned PD. These five census tracts areas meet the sub-prime threshold for the Scattered Area Purchase and Rehabilitation activity and are less than half a percentage off from the foreclosure threshold. The City of Modesto would like these census tracts included in the Scattered Area Purchase and Rehabilitation activity as well to ensure all hard hit areas receive assistance.

The factors in determining target areas within the City of Modesto were that the foreclosure rate had to be ten-percent or above or the sub-prime loan rate had to be at twenty-percent.

The census tracts that the City of Modesto would like to determine as greatest need areas are as follows:

000602	000911	001700
000801	000912	001800
000803	001001	001900
000805	001002	002003
000806	001100	002004
000807	001200	002100
000905	001300	002200
000906	001400	002301
000907	001500	002302
000908	001601	002400
000909	001603	002501
000910	001604	002803



The below chart further explains the criteria utilized to determine Greatest Need.

Census Tract	Estimated Foreclosures	Estimated Mortgages	Estimated Foreclosure Rate	Estimated Percentage Sub-prime Loans	Estimated Unemployment Rate
000602	81	764	10.60%	27.07%	9.59%
000801	144	1406	10.24%	24.90%	9.39%
000803	99	817	12.12%	36.46%	9.39%
000805	189	1596	11.84%	35.17%	9.39%
000806	88	820	10.73%	28.46%	9.39%
000807	34	342	9.94%	24.03%	9.39%
000905	130	1314	9.89%	22.84%	9.39%
000906	146	1459	10.01%	23.76%	9.39%
000907	61	630	9.68%	21.16%	9.39%
000908	116	1087	10.67%	27.30%	9.61%
000909	100	925	10.81%	28.73%	9.39%
000910	123	1043	11.79%	35.07%	9.39%
000911	144	1359	10.60%	27.15%	9.39%
000912	462	4853	9.52%	20.52%	9.39%
001001	108	1088	9.93%	22.98%	9.39%
001002	73	671	10.88%	29.47%	9.39%
001100	70	654	10.70%	27.72%	9.39%
001200	88	794	11.08%	30.11%	9.39%
001300	132	1306	10.11%	24.00%	9.39%
001400	137	1221	11.22%	31.12%	9.39%
001500	190	1534	12.39%	37.39%	9.78%
001601	113	836	13.52%	44.55%	9.85%
001603*	165	1265	13.04%	40.95%	10.52%
001604*	100	759	13.18%	43.19%	9.39%
001700	38	278	13.67%	46.00%	9.39%
001800	25	210	11.90%	34.92%	9.39%
001900	135	1296	10.42%	26.16%	9.39%
002003	282	2453	11.50%	32.80%	9.39%
002004	170	1429	11.90%	35.54%	9.39%
002100*	78	537	14.53%	50.72%	10.20%
002200*	117	886	13.21%	42.79%	9.85%
002301*	256	1894	13.52%	43.90%	10.16%
002302*	84	659	12.75%	39.46%	10.92%
002400*	294	2196	13.39%	43.27%	10.24%
002501	203	1784	11.38%	30.65%	11.80%
002803	75	716	10.47%	26.55%	9.40%

Highlighting indicates low income census tracts

* indicate Weed & Seed/Airport Neighborhood



Activity Clarification

The City of Modesto has proposed the following activities for the Neighborhood Stabilization Program.

- **Administration** of program (\$810,924). This activity will be in compliance with CDBG regulation 24 CFR 570.206.
- **Incentive Transfer Program** (\$2,027,319) will be administered through the Housing Authority of the County of Stanislaus. This will be an acquisition and rehabilitation activity, however it is separated out from the other acquisition and rehabilitation activities because it specifically will serve the population that is at or below 50% of the median area income. This activity can be carried out in any of the greatest need areas and will be subject to ensuring compliance with CDBG regulation 24 CFR 570.202.
- **Scattered Site Purchase and Rehabilitation** (\$2,000,000) will focus on the following census tracts 000807, 000905, 000907, 000912, 001001, 000602, 000801, 000805, 000806, 000906, 000908, 000909, 000910, 000911, 001002, 001100, 001200, 001300, 001400, 001800, 001900, 002003, 00204, 002501 and 002803. All projects will be subject to ensuring compliance with CDBG regulation 24 CFR 570.202. At this point staff anticipates that approximately 5 percent of the homes could possibly need to be demolished, but it is unclear what properties will be presented for funding. As properties are assessed, if demolition is needed, an amendment to this plan will be submitted.
- **Target Area Purchase and Rehabilitation** (\$2,000,000) within the Airport Neighborhood and the Weed and Seed Neighborhood as well as the boarding neighborhoods which include census tracts 000803, 001500, 001601, 001603, 001604, 001700, 002100, 002200, 002301, 002301, and 002400. All projects will be subject to ensuring compliance with CDBG regulations 24 CFR 570.202. At this point staff anticipates that approximately 10 percent of the homes could possibly need to be demolished, but it is unclear what properties will be presented for funding. As properties are assessed, if demolition is needed, an amendment to this plan will be submitted.
- **Down Payment Assistance Program** (\$1,271,031) will provide gap financing to income-eligible citizens to purchase foreclosed properties. The final sales price will be no greater than the initial acquisition and rehabilitation costs. Income-eligible homebuyer's earnings cannot be greater than 120% area median income as defined by HUD. This activity will follow the existing down-payment assistance program that the City of Modesto administers and will comply with CDBG regulations 570.201 (n). Homes purchased with the Down Payment Assistance Program can be located in any of the established greatest need census tracts.

Affordability Covenants

All affordability covenants will be calculated based on existing HOME regulations. For example, if a loan is made for acquisition and rehabilitation of a property for rental housing in the amount of \$40,000 an affordability covenant of no less than 15 years would apply. The Incentive Transfer Program will have an affordability covenant of no less than 40 years. HOME regulations will be followed in determining all affordability covenants per 24 CFR 92.252 (e)(f).

Terms of Assistance

Loan terms will be depending upon the amount of funds loaned and will be in accordance with HOME regulations.

County/City Collaboration

The City of Modesto is collaborating with Stanislaus County in order to make a significant impact in the Airport neighborhood as well as the Weed and Seed neighborhood. Both of these low income neighborhoods are a mix of City and County addresses. In order to get to the Airport neighborhood, a person would drive through the City, and then enter the County side of the Airport Neighborhood before getting into the City part of the Airport neighborhood. Due to the blurred boundary line between the City and County, both agencies are establishing the neighborhoods as target areas. Each agency will act within their capacity; however the agencies will consult with each other on projects within these neighborhoods to ensure funding will bring about a sizeable transformation within the neighborhoods. The City and County will be meeting on a regular basis to consult on projects that are in the specified target areas. Each entity is familiar with the different census tracts and understands the subsections that need the most help. As the City identifies a project that is feasible, they will notify the County to see if efforts can be made to work in the same area. When the County has a project they are ready to commence, they will make every effort to see if the City will be able to also work in the same section of the neighborhood. The combined effort and open communication will work to reinvigorate each section as a whole. The City and County are already in collaboration to revitalize these neighborhoods and hold combined clean-up efforts to reduce blight. The housing conditions are below standards and the residents do not have the resources to help themselves. The collaboration between the two agencies will ensure that the neighborhoods as a whole are improved to make the most impact.

Low/Moderate/Middle Income (LMMI) Requirements

- All NSP funds shall be used to benefit individuals and families whose incomes do not exceed *120 percent of area median income*, adjusted for family size.

FY 2008 Income Limits for 120% of HUD Area Median Income

<u>1 person household</u>	<u>2 person household</u>	<u>3 person household</u>	<u>4 person household</u>	<u>5 person household</u>	<u>6 person household</u>	<u>7 person household</u>	<u>8 person household</u>
\$47,450	\$54,250	\$61,000	\$67,800	\$73,200	\$78,650	\$84,050	\$89,500



Limitations

(1) **ON PURCHASES.**—Any purchase of a foreclosed upon home or residential property under this section shall be at a discount from the current market appraised value of the home or property, taking into account its current condition, and such discount shall ensure that purchasers are paying below-market value for the home or property.

(2) **REHABILITATION.**—Any rehabilitation of a foreclosed upon home or residential property under this section shall be to the extent necessary to comply with applicable laws, codes, and other requirements relating to housing safety, quality, and habitability, in order to sell, rent, or redevelop such homes and properties. Rehabilitation may include improvements to increase the energy efficiency or conservation of such homes and properties or provide a renewable energy source or sources for such homes and properties.

(3) **SALE OF HOMES.**—If an abandoned or foreclosed upon home or residential property is purchased, redeveloped, or otherwise sold to an individual as a primary residence, then such sale shall be in an amount equal to or less than the cost to acquire and redevelop or rehabilitate such home or property up to a decent, safe, and habitable condition.

Minimum Affordability Period

NSP Funding Amount	Affordability Period
Under \$15,000	5 years
\$15,000 to \$40,000	10 years
Over \$40,000	15 years

The above affordability periods are based on HOME regulation 24 CFR 92.252 (for renters) and 92.254 (for owners), depending on the amount of NSP funding provided, the above affordability periods could increase.

<http://www.hud.gov/offices/cpd/affordablehousing/training/web/abc/provisions/affordability.cfm>

Rent Affordability

Affordable rents need to be calculated to ensure that purchasers and renters of NSP-assisted structures do not have problems making mortgage or rent payments. A common standard is that housing payments should not exceed 31% of adjusted family income.

Program Income

If properties are sold before the period of affordability ends, the seller must reimburse the grantee for some or all of the initial subsidy. This revenue is Program Income and must be used by the grantee for other NSP eligible uses.

http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/docs/program_income_guidance.doc

Resale/Recapture

Housing Counseling Requirement

Each participant purchasing an owner occupied home with NSP funding will be required to participate in 8 hours of approved HUD certified home owner counseling.



To locate a local HUD certified Housing Counselor please contact 209-577- or email housing@modestogov.com

